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SUBJECT: GABON TO RECEIVE A THREE-YEAR IMF PROGRAM

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¶1. Summary: After over a year of discussions, the IMF and the Government of Gabon (GoG) have reached a preliminary agreement on a three-year standby arrangement. The program will go to the IMF Board in May 2007 and will focus on budget sustainability, improving the management of public finances, and improving the business climate. End Summary.

¶2. On March 9, 2007, an IMF mission briefed the donor community on progress made with the GoG regarding a new IMF program. The head of the IMF delegation, Roger Nord, stated that the two sides had reached a preliminary agreement for a three-year program that would likely go to the IMF Board in May 2007.

¶3. The program focuses on three areas. First, it includes adjustments to allow Gabon to manage its finances in the post-oil era by providing for a non-oil budget deficit sustainable in the long term. Second, the IMF seeks to improve the management of public finances. Nord noted the GoG's progress in addressing the state's fuel products subsidies, but added that more progress is needed in the budget process. He highlighted the need to improve budget execution and to strictly follow tender rules for public works, including investment expenditures linked to the national day celebrations ("fetes tournantes"). Finally, the three-year program seeks to encourage the improvement of the business climate, which is fundamental to the country's long term economic development. Nord mentioned the positive steps taken by the GoG with its two remaining state companies - the liquidation of Gabon Airlines and the sale of Gabon Telecom.

¶4. Nord noted the GoG had made considerable progress in the last year and a half despite a tough political calendar (presidential elections at the end of 2005 and legislative elections at the end of 2006). He also mentioned that the new IMF program would encourage forest sector reform by supporting elements of the World Bank's natural resource management loan, such as collection of taxes from timber companies (reftel).

¶5. While generally optimistic, Nord cautioned the donor community on Gabon's recent debt accumulation. In the past 18 months, he stated, Gabon signed or is in the process of signing loans equaling approximately \$800 million. His concern focused more on the rhythm of these new loans, rather than on the actual amount, saying that continued accumulation of loans could undermine Gabon's debt sustainability in the long term. He suggested that to avoid a future crisis, both Gabon and the donor community should exercise discipline. (Note: The IMF team was very interested in information on a recent EX-IM commitment to Gabon. End note.)

¶6. When asked about the Chinese iron project's impact on the budget or on sovereign debt, Nord said the Government informed him there would be no direct loans to the GoG. He added that during the next Article IV consultation (scheduled for later in 2007), the IMF will include an assessment of the Belinga project on the country's economy.

¶7. Comment: The preliminary agreement for a three-year program with

the IMF demonstrates that the Ministry of Finance is increasingly managing the state coffers effectively. It has satisfied the IMF by using the oil windfall to cut down external debt and remove fuel products subsidies, and it has divested itself of the last two large state companies (the airline and telecommunications companies). The test will be to see how long this discipline is maintained.

WALKLEY